

REWARD SYSTEM AND ITS IMPACTS ON EMPLOYEE MOTIVATION: A CASE
STUDY OF A MALAYSIAN SERVICE COMPANY (PUSPAKOM SDN. BHD)

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ABSTRACT

The aim of this research is to study the reward system and its impacts on employee motivation. For reward system, it was divided into two categories. One is extrinsic reward which consists of pay, bonus, and promotion. The other one is intrinsic reward, which consists of responsibilities, meaningful work and achievement. Both of them are set as the independent variables. Then, employee motivation is the dependent variable. 132 respondents from Puspakom Sdn. Bhd. were surveyed by questionnaire. The collected data was analyzed by using descriptive statistic (frequency), reliability analysis (Cronbach's alpha), correlation test (hypothesis testing), and regression analysis. Results show that there are significant positive relationships between reward system dimensions (pay, bonus, promotion, responsibilities, meaningful work, and achievement) and employee motivation and the findings are in accordance with previous researches.

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji sistem ganjaran dan kesannya keatas motivasi pekerja. Untuk sistem ganjaran, terbahagi kepada dua bahagian. Salah satunya ganjran luaran iaitu gaji, bonus dan kenaikan pangkat, manakala ganjaran dalaman terdiri daripada tanggungjawab, kerja yang bermakna dan pencapaian, Keduanya ditetapkan sebagai pembolehubah bebas. Kemudian, motivasi pekerja adalah pembolehubah bersandar. 132 responden daripada Puspakom Sdn. Bhd. ini telah dikaji oleh soal selidik. Data yang diperolehi dianalisis dengan menggunakan statistic deskriptif (frekuensi), analisis kebolepercayaan (Alpha Cronbach), ujian korelasi (ujian hipotesis) dan Analisis Regresi. Keputusan menunjukkan bahawa terdapat hubungan positif yang signifikan antara dimensi sistem ganjaran (gaji, bonus, kenaikan pangkat, tanggungjawab, kerja yang bermakna dan pencapaian) dan motivasi pekerja dan hasil adalah mengikut kajian sebelumnya.

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CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

Every company have their own strategy in rewarding their employee. Organization reward system refers to the ways by which employee within an organization can be motivated to put more efforts that will lead to organizational goals. It is also can be seen as those motivational tools which an organization adopts to reward their workers for high or improve productivity.

As Griffin and Moorhead (2009) says, reward system is a fundamental components of a performance management system and is one broad term and includes all organizational components associated with rewards including people, processes, rules, regulations, procedures and decision making processes that are involved in providing the benefits and compensation among employees in return for the contribution made to the organization in terms of the work accomplished. Gunkel (2006) also defined employee motivation as the desire or effort imposed by employee to achieve organization goals. This phenomenon is universal and the results for particular desire disgruntled employee. When the will and desires are not satisfied, motivation was created in that person to achieve that goal.

So, this study is about reward system and its impacts on employee motivation in one of the successful service company in Selangor. This chapter will provides an overview of this research, including background of study , problem statement, research objective, research question, scope of study, research framework, research hypothesis, significant of study, and operational definition in reward system and its impacts on employee motivation in Puspakom Sdn. Bhd.

1.1 PROBLEM BACKGROUND

Motivating an employee is one of the most important parts in the company's development and success. It is important for employers to understand what motivates employees and how to improve their work performance in an effort to maximize the overall company performance. Reward systems are designed for attracting new recruits, motivating employees to perform higher, retaining key competencies and to reach their overall potentials to perform for the company. It may however be challenging for a company to find out what motivates employees, because different people are motivated by different things. According to Dalton, Hoyle and Watts (2003), a growing number of organizations are introducing new strategies including different compensation packages, as a means of motivating today's workers while all companies make some efforts to motivate employees. So companies should give more effort in providing formal reward systems with various benefits and goals in an attempt to motivate their employee. A well-organized reward system will motivate and energize employees because it recognizes the achievements of employees.

By implementing a strategic reward system, to some extent it can help increase employee motivation. Of course rewarding an employee performance is a bit challenging. Yet it is the one to support improvements in performance through the strategic reward system. Reward systems should be closely aligned to organizational strategies in order to achieve desired goals. Companies also use reward systems in order to steer their personnel, to point out what the company values.

Rewards system may include extrinsic and intrinsic rewards. Extrinsic rewards can be listed as wages and salary, bonus, promotion that the employee receives as part of their job. An intrinsic reward associated with the satisfaction that comes from actually performing the work such as responsibilities, meaningful work, and achievement and so on. Reward systems can be misleading if it's not implemented and carried out correctly, but when we used it effectively, it can have a major positive impacts on the company and its employees itself. In conclusion reward system is an important tool for organization use to deliver employee's motivation in desired manner. In other words, reward systems strives to draw people to join the organization, making sure they come to work and motivate them to perform to a higher levels.

1.2 PROBLEM STATEMENT

The problem being discussed here is current as well as relevant for any organization. As employees, they are the main resource for any organization and these rewards directly have an impact on them. Motivation is an intangible and subjective term while reward systems are objective and clearly well-defined and attempting to relate one subjective concept to an objective one is a daunting task.

Usually, reward system was designed by top management. The problem here is that maybe they design the reward system without consulting with the employee and thus the designed may not be able to satisfy employees need and expectation. So we can say this reward system is not well structured and because of that it can't really fully motivate the employee. In case the reward is something that does not have any good for the employee then it may not be enough to motivate the employee. As a result, the performance of the company will be effect due to this problem. Good performance of a company can really help organizations maintain their recognized so that these appear as positive consequences for showing the desired behaviour to motivation among employees. Plus in Malaysia, this topic of reward system is a bit inadequate and rarely discussed. So that's why these entire problems can arise because of the lack of knowledge on the topic.

So, this study intends to overcome this problem. By assuming independent variable as reward system and dependent variable as employee motivation, this study is designed to determine the reward system and its impacts on employee motivation. The sample of employees to be studied belongs to a company called Puspakom Sdn. Bhd.

1.3 RESEARCH OBJECTIVE

The purpose of this study is to determine reward system and its impacts on employee motivation. In detail, it aims to identify which aspect of the reward system functions better, and which aspects can be developed and improved to increase employee motivation. Employees are usually regarded as the most effective machinery through which the organizational goals and objectives can be easily achieved. The following are the major objectives of this research:

- i. To identify reward system in service company;
- ii. To evaluate the relationship between reward system (wages / salary, bonus, promotion, responsibility, meaningful work, achievement) and employee motivation;
- iii. To identify the most influential factors of reward system towards employee motivation.

1.4 RESEARCH QUESTIONS (RQ)

The relevant questions to be asked for the purpose of this study are:

RQ1: What is reward system?

RQ2: What is the relationship between reward system and employee motivation?

RQ3: What are the factors of reward system that contribute to employee motivation most?

1.5 RESEARCH FRAMEWORK

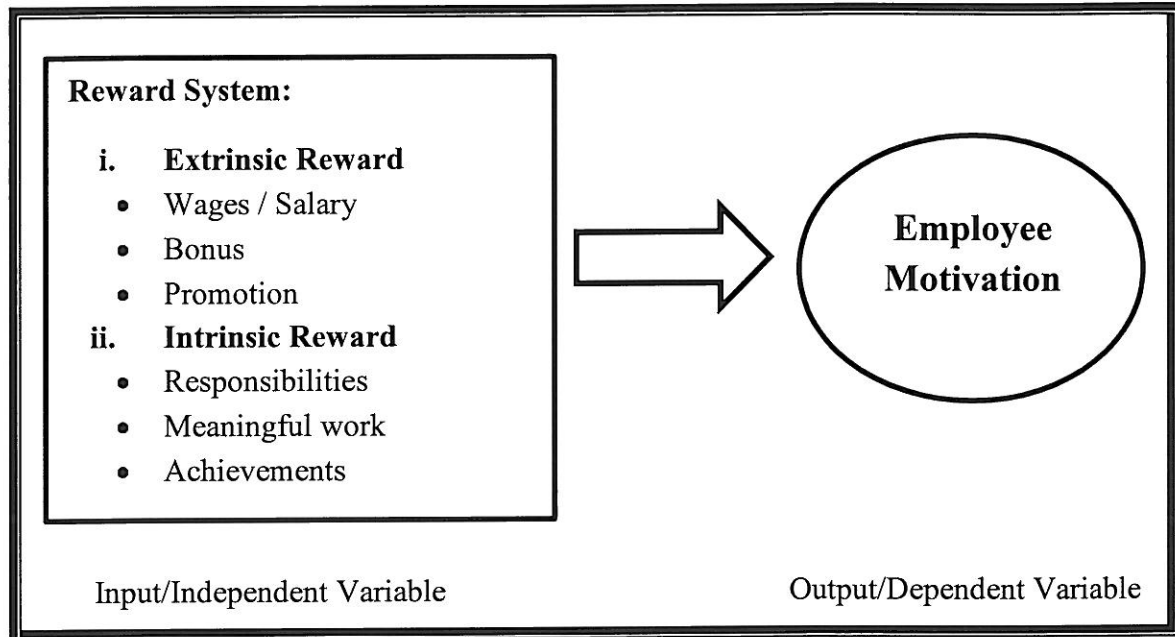


Figure 1.1: Research Framework

From the research framework in Figure 1.1, reward system includes 1) wages / salary 2) bonus 3) promotion 4) responsibilities 5) meaningful work and achievements, which are set as the independent variables. Then, employee motivation is the dependent variable.

1.6 RESEARCH HYPOTHESIS

- H1: *Wages / Salary are positively related to employee motivation*
- H2: *Bonus is positively related to employee motivation*
- H3: *Promotion is positively related to employee motivation*
- H4: *Responsibilities are positively related to employee motivation*
- H5: *Meaningful Work is positively related to employee motivation*
- H6: *Achievement is positively related to employee motivation*

1.7 SCOPE OF STUDY

The research conducted focuses on the employee of Puspakom Sdn. Bhd in Selangor. Puspakom Sdn. Bhd is a company that offers vehicle inspection services. The company also provides inspection prior to auction, tinted glass testing, vehicle plan verification, taxi meter calibration services, and etc.

Furthermore, the scope was set on the theories used to analyse the level of motivation with the reward system. Then will be focus on the employee of Puspakom Sdn. Bhd in Selangor which the company provides vehicles inspection services. The scope also includes six independent variable divided into two, extrinsic and intrinsic reward. Extrinsic rewards are wages / salary, bonus and promotion. Intrinsic rewards are responsible, meaningful work, achievement. Also for dependent variable which is employee motivation.

1.8 SIGNIFICANCE OF STUDY

There are a lot of benefits that a company as well as other industries can learn throughout this study. One of them is that reward system can help boost the company's morale, as well as productivity levels which will increase the overall profit of the company. Good reward system can also motivate employees to work harder, and coordinate their goals with the organization they are work for. The current trend towards reward systems is designed to lead much greater rewards and motivation for those who contribute the most. They also can get some knowledge on how to design an effective reward system in their company.

An organization can use reward system as a strategic move to show employees that their contribution to the organization is recognized, and in so doing, affect their motivation and performance. Based on these findings, organization can enhance and promote the effective use reward system in the feedback process of performance management system. The results of this research study may also affect the in order for them to take more structured approach to reward systems that enable high performance culture that it seeks to achieve. Understanding the concept of motivation can help

managers who are incompetent and inexperienced, in terms of employee motivation, identifying what is actually motivate their employees.

1.9 OPERATIONAL DEFINITION

The operational definitions of those variables are as follows:

Reward System

Holmes N. et al., (2010) defined reward system as a structured method of assessing and compensating employees based on their performance

Extrinsic Reward

Extrinsic reward is a reward that is tangible or physically given to you for accomplishing something.

Wage / Salary

Consist of wages or salaries paid in weekly, monthly including payments by results and piecework payments; plus allowances such as working overtime; plus amounts paid to workers away from work for short periods.

Bonus

Bonus is an additional compensation given to an employee above his/her normal wage. Bonus can be used as a reward for achieving specific goals set by the company, or for dedication to the company.

Promotion

Promotion is the action of raising someone to a higher position or rank or the fact of being so raised.

Intrinsic Reward

An intrinsic reward is an intangible award such as recognition, a sense of achievement, or a conscious satisfaction.

Responsibilities

In this research, responsibilities can be defined as the state of having control over someone or having a duty to deal with something. Business Dictionary also define

responsibilities as a duty or obligation to satisfactorily perform or complete a task that one must fulfil and which has a consequent penalty for failure.

Meaningful Work

According to Ariely (2012) meaningful work is the sum of intangibles like ownership, creation, and challenge. For example, challenging tasks give us a greater sense of accomplishment and pride.

Achievements

Achievements can be described as a thing that has been done successfully, typically by effort, courage, or skill.

Employee Motivation

Vansteenkiste (2007) defined employee motivation as employees who are highly involved and engaged in their job and try to make the best in their performance.

CHAPTER 2

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter is to get information of reward system by focusing on the previous theories of reward system. It proceeds with details on the types of reward system which consist of extrinsic and intrinsic reward. Given the focus of this research study, it is important to have a deeper understanding of the meanings of employee motivation, as they are often used interchangeably. Yet the literature shows that there is a unique, significant difference between these concepts.

2.1 Definition of Reward System

A reward system is a great way to start-off the working environment which is less favourable. Dealing with employees who are slow and unproductive can cause your manager to dislike you. Reward systems could be the only ways to motivate the employees in being more successful and productive. Develop a reward system might take some to think outside of the box and a bit of creativity, but a little time spent on the drawing board could get a big returns when it comes to productivity.

Bratton (2007) says that reward system refers to all financial, non-financial and psychological cost that the organization provides to its employees in return for the job they do.

According to Manus and Graham (2003) and Khan et al., (2013), rewards can be considered a variety of different compensations of both intrinsic and extrinsic. Rooy (2010) and Birthch and Chiang (2011) says it can also be classified as financial and

non-financial as well as monetary and non-monetary. However, Shields (2004) and Armstrong and Brown (2006) agreed that intrinsic and extrinsic reward is one of the most famous models components of a reward system.

Moreover, Byars and Rue (1997) defines the reward systems as “returns that employees receive as a result of the employment by their organization, financial and non-financial.” On the other hand, Armstrong (2006) in his definition combines the element of “effective reward management” for the benefit of people as well as the organization.

According to Ahlgren A et al., (2007) reward systems have different purpose, motivate employee is the main goal and so does better performance and greater expectations. Wagner (1990) also claims that a how well the plan will work and does it will motivate employee enough is a main concern in designing of reward systems. Responding to this, the works of Lawler (1971); Gerhart and Milkovich (1992) MacDuffie (1995); Bamberger and Meshoulam (2000) have shown that the reward system has been shown to motivate performance under certain and specific conditions. This research translated that employees viewed bonuses associated to satisfaction scores as an opportunity to motivate (Simons and Enz, 1995).

Torrington et al., (2009) and Rabey (2000) also claim that the proponents of the theory of expectations and behavioural sciences believe that the employees will work harder if the rewards are attached. Kohn (1993), who agreed that any incentives system makes people less eager, therefore, less committed to excellence to their work. Notwithstanding any the above views, Chopin et al., (1995) found that firm size and performance will fully depends on compensation.

Armstrong and Murlis (2004) sited from Stoner, Freeman and Gilbert (1995), state that, reward strategy in practice is beyond the mandatory compensation or remuneration package which is a package of motivational incentives driving the actions in manipulating and controlling the behaviour of employees to achieve the organization objective. Shields (2007) assert that it is in the recognition of the importance of reward as motivational technique that most organizations invest heavily in them in order to gain control of their employee behaviour.

Rewards play an important role in organizations today. They affect a wide range of work-related behaviour Eastaugh (2002) and Helmer et al., (1988) and as well as employee motivation (Nayeri et al., 2005). Markova and Ford (2011) states that the real success of a company's comes from the willingness of the employees' to use their creativity, knowledge and abilities to the company and it is the duty of the organization to promote and enhance the positive employee inputs by putting effective reward practices in place. For example, a company should focus on a strategy of product differentiation. By implementing this strategy, a company could design their reward practices in order to foster innovation to provide unique products or services, and companies that focus on cost reduction strategy may focus on rewards for ideas to reduce costs and employee stock awards to foster continued cost reduction. And for that, Reena et al., (2009) says, all businesses must use pay, promotion, bonuses or other types of rewards to motivate and encourage performances level of employees so that it can give a lot of impact on employee motivation.

2.2 Type of Reward System

2.2.1 Extrinsic Reward

Deci (1972) defines extrinsic rewards will be settle outside of the person with examples such as money and verbal reinforcement, while intrinsic rewards is a mediator in positive feelings associated with an activity. Extrinsic rewards are based on the participation and achievement of the organization and further categorized to establish direct and indirect (Westover and Taylor, 2008).

The employees took the extrinsic rewards from the firm and extrinsic rewards are usually high value. Examples of extrinsic reward can be salary, bonus or other financial benefits. Appelbaum et al., (2011) and Datta (2012) mention extrinsic rewards also encourage employee morale and the distribution of these rewards always has loomed large in companies, particularly in accordance with the assessment of performance in today's globalized world. Rewards can create organizations that are built to change. Reward such as wage & salary, bonuses, promotion and so on when

designed properly, can help organizations to be flexible and efficient. Below is the definition for each variable in extrinsic reward.

1. Wage / Salary

Salary is a fixed amount of money paid to an employee by an employer in return for work done. Salary is paid, typically, in a bi-weekly pay check to employees who are exempt or professional. Wages can be defined as the price paid for labour. In other words, wages are the payments made to the employees as compensation for services rendered by them to the company.

Managers need to consider salary structures which should include organization attaching importance to each job, payment according to performance, personal or special allowances, fringe benefits, and pensions and so on in an attempt to use salaries as a motivator effectively Adeyinka et al., (2007). Employees would receive a reasonable salary and wages, and desire their employees to feel what they are getting (Houran, 2010).

2. Bonus

Bonus can be defined as a sum of money added to a person's wages as a reward for their outstanding performance. According to E. Lawler III and G. Worley (2006) organizations must use bonus and change it with cash rewards in order to motivate performance. They also noted that an increasingly popular form of variable pay uses the performance appraisal to determine the amount of bonus paid to an employee. Organizations need reward systems that motivate performance, reward change, and promote the development of capabilities and competencies of individual and organizational

Armstrong M. & Murlis H. (2008) according to their book, bonus is a cash reward for past performance. It provides an important recognition of achievement in financial terms and thus can serve as a motivator as long as there is a clear relationship between the contribution of each person and his or her reward. Second, the bonus is valued and there is a reasonable chance of getting it if the required level of performance

is achieved in the future and if incentive provides direct motivation. When direct motivation is achieved there is a clear vision between effort and reward and the level of expectation on the prospect of getting a substantial reward.

3. Promotion

Promotions are also an important aspect in employees' career and life, which affects other aspects of motivation. Firms can use promotions as a reward for employees who are productive, create incentive for employees to exert greater effort. Promotion can be referring to as progress of an employee's rank or position in a hierarchical structure. Promotions will set employees to do a better job as their ability to quickly move up to their talent (Gibbons, 1997). The simplest form of salary incentives is the ladder of promotion (Savych, 2005). This requires recruits to accept lower paid port-of-entry jobs. Initial period of employment is a filtering process. Promotion leads to a good performance. When ladders of promotion are used as delayed compensation, almost all junior employees prove themselves as promoted (Savych, 2005).

2.2.2 Intrinsic Reward

The intrinsic rewards are more subtle and are related with work assignment and have no financial value. Jensen et al., (2007) stated that he sees intrinsic reward as tools to motivate the employees to execute as expected. Intrinsic reward can for example be that the employee who increase the power of decision making authority, is given more complex tasks or achieves a higher position in the hierarchy of the organization (Jacobsen & Thorsvik, 2002). According to Brayton Bowen R. (2000) from his book "Recognizing and Rewarding Employee's", are stating that it is important for the managers to understand the value of intrinsic rewards in the new workplace, indulging intrinsic rewards is the key to unlocking the power of personal motivation. Mike W. (2014) says that an intrinsic reward is an intangible award of recognition, a sense of achievement, or a satisfaction conscious. For example, it is the knowledge that you did something right, or you made someone's day better by helping them. Below will be the definition for each variable in the intrinsic reward.

1. Responsibilities

According to Naswa (2009) responsibility means a diversity of things to a vast multitude of people. For some it means accountability, which is responsible for one's actions to him or to others. Yet to others it implies dependability and guarding of one's actions. The word responsibility should be understood as an intention to act caution and respect not only to you but with connection to others. If a person is engaged in careful study of the establishment of any civilized society, one notices that responsibility was a cardinal founding principle.

Forsyth (2000) says that giving people responsibility prompt their giving greater thought to their work and with it, often produces not only greater productivity but is likely to improve efficiency, quality indeed any steps that may be involved in victorious. And in each of this case can potentially improve motivation and achievement. Responsibilities are an important aspect in achieving greater motivation by workers. When employees are engaged through personal values of their own, it will increase their overall motivation. Responsibilities of the organizations allow employees to grow and develop their overall ability to generate a higher stage of motivation among the workforce (Maccoby, 2010).

Worker should make the decision to take on more responsibility. Although prospect might seem daunting at first, increasing the responsibility of workers leads to greater involvement and job satisfaction. For example, directing employees to take certain measures won't engage their minds, but base on their reserves and allow them to take point on a project encourages self-sufficiency

2. Meaningful Work

Meaningful work is defined by Rosso et al., (2010) and Steger et al., (2012) as the importance of work for people in both interest and positive in valence (meaningfulness). Various work-related benefits, including increased job satisfaction, motivation, and achievement is associated with meaningfulness (Rosso et al., 2010). Meaningful work is disparate rather than just looking for a job where any job will do. Meaningful work is defined by doing what you love and being rewarded in ways that

are meaningful to you. Through a journey inward you can discover what will allow you to know for sure and do the best work, to make a distinct in the world as you see it.

Managers who wish to increase employee motivation must consider the importance of job design, and try to create tasks, and the circumstances in which these tasks are carried out, which will make the work more meaningful. Lips-Wiersma & Morris (2009) noted several theories that have been devote their attention to the idea that, since individuals have a need for meaning in their work, leaders must seek ways to enhance meaningfulness for the worker or protect workers from meaninglessness in their work. The interest in meaningful work is collaborating with positive individual and organizational impression with regard to work (Rosso et al., 2010). Wrzesniewski (2010), we define meaningful work not simply as whatever works are meaningful to people, but indulge the work that is both significant and positive in valence.

3. Achievement

Employees develop a need for achievement when they see value in it and when the work environment supports it. Recognizing achievement is a straightforward approach to developing trust and encouraging employees to set and achieve goals, says (McClelland, 2000). Armstrong M. & Murlis H. (2008), stated that people will feel rewarded and motivated if they have the scope to achieve and also being recognized to excel. People who are driven by the need to achieve are likely to be proactive, to seek opportunities and to demand on recognition. Forsyth P. (2000) says that achievement is the most powerful motivator and therefore one of the most useful in motivating an employee.

2.3 Model of Reward System

1. Chen, Ford and Farris (1999)

Chen, Ford and Farris (1999) presented a model of reward types used by organisations as depicted in Figure 2.1

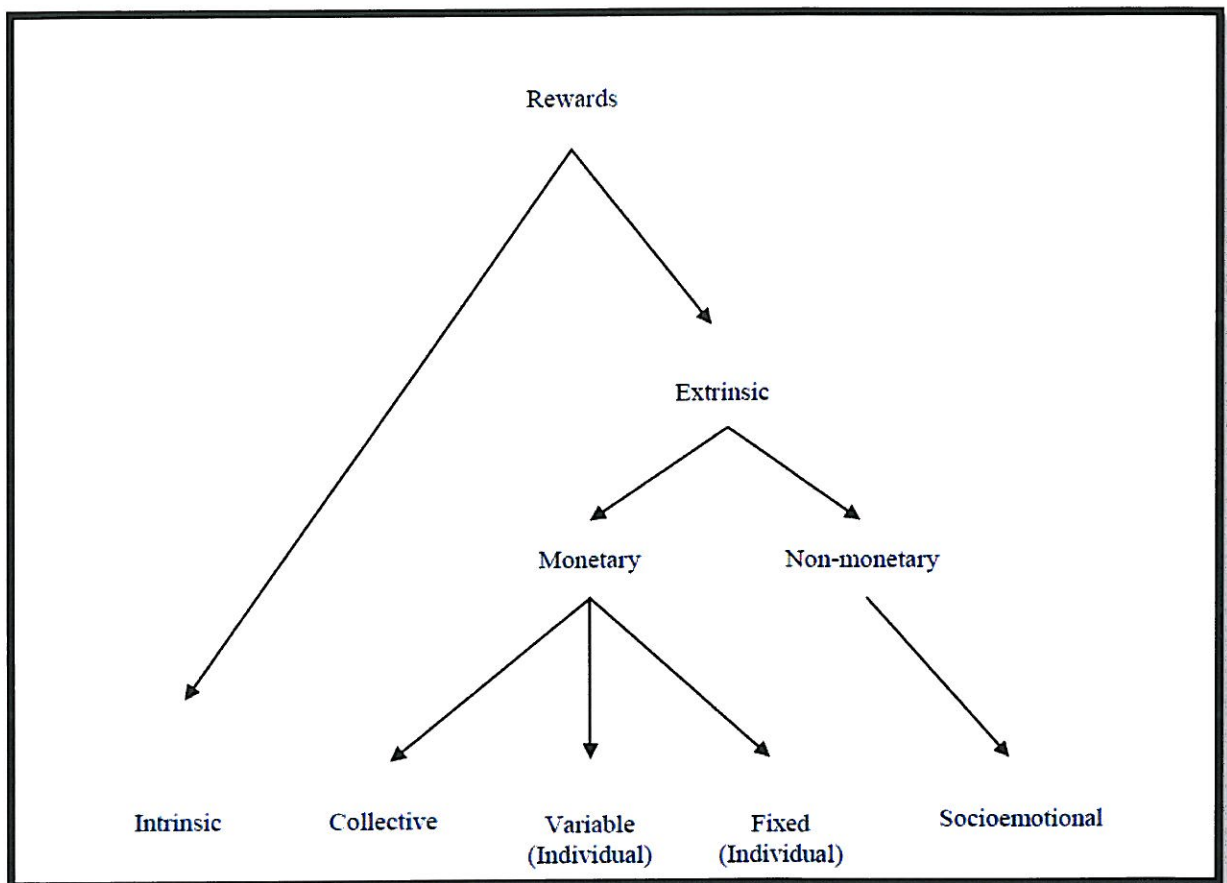


Figure 2.1: Model of Organisational Reward Types (Chen, Ford and Farris, 1999)

Intrinsic rewards are defined as non-monetary while extrinsic can be either monetary or socio emotional. Intrinsic rewards are the experiences of people with a job well, feelings of competence, autonomy and responsibility. Extrinsic are an inducement that was provided by organization such as bonus, commemorative plate, pay, job title and tenure.